UNITED NATIONS

DP

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.
GENERAL

DP/CP/CEH/1
9 November 1994

ORIGINAL: ENGLISH

First regular session 1995
10-13 January 1995, New York
Item 3 of the provisional agenda

Country programmes and related matters

FIRST COUNTRY PROGRAMME FOR THE CZECH REPUBLIC

Programme period	Actual resources programmed	$
1993-1996*	Net IPF	1 799 600
	Estimated cost-sharing	-
	Total	1 799 600

CONTENTS

		Paragraphs	Page
I.	DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES	1 - 11	3
	A. Socio-economic situation	1 - 8	3
	B. National development objectives and strategies ...	9 - 11	4
II.	EXTERNAL COOPERATION	12 - 17	4
	A. Role of external cooperation	12 - 15	4
	B. Aid coordination arrangements	16 - 17	5

* In its decision 93/3 of 19 February 1993, the Governing Council authorized the Administrator to proceed with programme development in the Czech Republic at the request of and in close cooperation with the Government. The presentation of the first country programme for the Czech Republic includes UNDP activities carried out in the country in accordance with that decision.

94-44916 (E) 161294 19/12/94

/...

CONTENTS (continued)

	Paragraphs	Page
III. THE COUNTRY PROGRAMME	18 - 40	5
A. Assessment of ongoing country programme	18 - 21	5
B. Proposals for UNDP cooperation	22 - 31	6
C. Assistance outside the main country programme areas	32	8
D. Implementation and management arrangements	33 - 40	8
Annex. FINANCIAL SUMMARY		10

I. DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES

A. Socio-economic situation

1. The Czech Republic is one of the two successor Republics that came into existence on 1 January 1993, when, with the agreement of both parts, the former Czech and Slovak Federal Republic ceased to exist. The Czech Republic covers an area of 78,864 square kilometers and has 10.3 million inhabitants. The per capita gross national product (GNP) is estimated for the year 1993 at $2,730; the Czech Republic is ranked at 27 on the human development index (FDI) scale.

2. After 1989 political changes, the Czech Republic has embarked on a radical, wide-ranging programme of economic transformation to a market economy. The former system of administrative command management caused deep disequilibrium in the national economy with the result that the transitional process started by the Government's economic reform programme, which came into effect in January 1991, faced many serious challenges. Nevertheless, the Czech economy possesses considerable potential, particularly in the industry sector, which is, however, in need of structural change and modernization.

3. The basic orientation of macroeconomic policy remains the same as that practised by the former Federal Government. The most important elements are: rapid privatization; price and foreign trade liberalization; introduction of the convertibility of the crown, involving a major devaluation of the crown; and restrictive monetary and fiscal policy aiming at maintaining macroeconomic stability and controlling inflation. Other measures include wage control (with respect to controlling inflation and maintaining competitiveness on international markets) and the development of institutions required for a market economy e.g., modernization of the financial and legal system.

4. The first two years of economic transition saw a more or less successful implementation of all main programme components. Although large privatization and implementation of the bankruptcy law were delayed, a large number of reforms had already been implemented in 1991 and provided a positive influence on economic performance in 1992, when the stabilization policy was broadly maintained by the Federal authorities.

5. The dissolution of the former Federal Republic at the end of 1992 involved not only a division of assets and liabilities but also decisions about the modalities and institutions to govern trade and monetary relations. By and large, the separation proceeded smoothly.

6. Results to date are encouraging for the Czech Republic and prospects appear promising. The initial shock of separation seems to have been largely absorbed, the stabilization policy has been generally maintained and privatization is proceeding rapidly. A dynamic private sector has emerged, after the completion of the first wave of voucher privatization in 1993, while almost all restrictions on business activity have been removed. The second wave of privatization started in the fall of 1993 and by its completion in 1994 almost 90 per cent of State property will have been privatized.

7. Current account convertibility of the Koruna, introduced in 1991, has significantly contributed to the re-orientation of Czech foreign trade from East to West. The broad legislative framework for a full transition to a market-based economy is now largely in place.

8. The combination of macroeconomic stabilization, market liberalization and privatization without significant unemployment is a remarkable achievement. There has been much progress, but - not surprisingly after only three years - the transition is far from complete and much potentially disruptive restructuring remains to be done. The basis of strategy should continue to be a broadly balanced budget, taking advantage of relatively low real wages; continued privatization and the strengthening of financial discipline. Against this background, there are good reasons for believing that the continued transformation will be successfully achieved.

B. National development objectives and strategies

9. Thanks to its location in the centre of Europe, the Czech Republic has always formed a geographical, cultural and economic part of advanced European nations and forms a natural bridge between western and eastern parts of the continent. In the future, the main goal is to strengthen its position among the developed nations and to continue the integration into European and other international structures.

10. While the prospects for the Czech economy are relatively favourable, the transformation process is not yet complete. Czech economic policy will face three major challenges in the short- to medium-term: (a) tackling the pressing problem of enterprise restructuring, enterprise indebtedness and the under-capitalization of the financial sector; (b) conducting an active labour-market policy that supports dynamic labour-market adjustment in the light of the necessary restructuring of the Czech enterprise sector and the subsequent expected large-scale labour shedding; and (c) facilitating the integration of the Czech economy into the European Union.

11. The reforms are to be accompanied by a growing consciousness for environmental issues. The state of the environment in the Czech Republic improved in 1993 for the first time in many years. However, this improvement is partly a consequence of the decline in industrial production. The goal for the next years, therefore, is to harmonize economic and environmental interests while working towards sustainable development.

II. EXTERNAL COOPERATION

A. Role of external cooperation

12. External cooperation and assistance from the international community in the transition period of the Czech Republic to a market economy are welcome and will serve as complementary tools to national efforts and development priorities.

13. The main external resources of technical cooperation are: the European Union through the Poland Hungary Aid for the Reconstruction of the Economy (PHARE) programme, which now covers central and eastern European countries and the Baltic States, Denmark, Finland, France, Germany, Netherlands, Norway, Switzerland, United Kingdom and the United States.

14. The largest programme of technical cooperation - PHARE - has been operational in the Czech Republic since 1990 as part of the programme for Czechoslovakia. The total PHARE assistance for the Czech Republic between 1990 and 1993 represents ECU 204 million. The financial assistance necessary for the accomplishment of the medium-term PHARE Indicative Programme 1994-1996, which was agreed upon in May 1994, is estimated at ECU 60 million, including ECU 25 million for measures under the new cross-border cooperation facility.

15. The PHARE programme in the Czech Republic has undergone considerable development both in its content and in its form. From the original concentration on the solution of the most pressing environmental problems, the focus has been developed to cover three main areas of support: the promotion of the development of the private sector; development of the infrastructure; and human resources. A shift is taking place from classical technical cooperation towards training programmes and more operative financing of equipment, grant schemes, demonstration projects and investment activities.

B. Aid coordination arrangements

16. The responsibility for the national coordination of foreign assistance lies with the Ministry of Foreign Affairs. The main task of the National Coordinator is to direct the assistance into respective economic spheres. As a supporting organ, the Advisory Board to the National Coordinator was established. The Advisory Board is composed of members representing all respective governmental ministries. The Centre for International Assistance was also created by the Ministry of Economy to secure various functions necessary for the coordination of foreign assistance.

17. United Nations assistance, including that of UNDP, is coordinated by the Department of International Economic Organizations of the Czech Ministry of Foreign Affairs.

III. THE COUNTRY PROGRAMME

A. Assessment of ongoing country programme

18. Programme activities of the former Federal Republic were terminated on the dissolution of the federation. It would not therefore be appropriate for the Government to assess the assistance provided by UNDP to the Federal Republic.

19. The remaining indicative planning figure (IPF) resources of the Federation were divided between the successor Republics. Resources available for the Czech Republic for the period 1993-1996 amount to $1,799,600.

20. It is too early to give an assessment of the ongoing national projects since most of them are in the first stage of their implementation. However, there are already positive signs and direct benefits from the implementation of programmes in the field of investment promotion and strengthening management development.

21. Since January 1993, 10 projects, amounting to $1,415,100 in IPF resources, have been approved by UNDP in three main thematic areas: (a) transition to a market economy; (b) management development, training and human resources development; (c) environmental management; as well as umbrella activities.

B. Proposals for UNDP cooperation

1. Preparatory process

22. In its decision 93/3 of 19 February 1993, the Governing Council accorded recipient status to the Czech Republic.

23. In order to ensure the smooth progression of UNDP assistance to the Czech Republic, the first country programme has built on the positive results of the fourth country programme for Czechoslovakia and the programme development that has been carried out in pursuance of Governing Council decision 93/3.

2. Strategy for UNDP cooperation

24. The UNDP mandate for achieving sustainable human development through developing national capacity and self-reliance, developing human resources, and building partnerships reflects themes supported by the Czech Republic. Although UNDP financial means do not match those of other donors, UNDP has certain comparative advantages that the Government wishes to optimize: its political and sectoral objectivity; its multisectoral and multidisciplinary approach; its global experience; access to international know-how; and its focus on national capacity-building, using local expertise to the maximum extent possible.

25. Among the instruments available for obtaining financing in addition to the scarce IPF resources the Government, in cooperation with UNPD, will consider: donor cost-sharing; Special Programme Resources (SPR) for thematic activities; and country-wide or special purpose trust funds. The Government is also making every effort to develop and strengthen its cooperation with developing countries and to this end intends to use the technical cooperation among developing countries (TCDC) modality.

3. Proposed UNDP cooperation in selected areas of concentration

26. The Government and UNDP have agreed that for the remainder of the fifth cycle, the country programme should continue to focus on the three major thematic areas initiated in 1993 (see paragraph 21). These areas are described below in order of relative importance.

27. Restructuring the economy, investment promotion and support for the private sector. The emphasis will be on the transfer of know-how to key sectors of the economy and on key locations where restructuring and modernization are needed. Also of vital importance is the creation and promotion of small- and medium-scale enterprises and investment promotion.

28. Management development, training and human resource development. The focus of the human dimension of transition will be on: (a) the improvement of the consulting and management capabilities of management training centres through the transfer of know-how and skills; (b) the development of human resource management; and (c) education programmes. A separate project has already been approved for telecommunication development with emphasis on strengthening the management capacities of the Government agencies dealing with this sector under new conditions of profitability and privatization.

29. Environmental management. Attention will continue to be concentrated on the elaboration and implementation of Agenda 21 at the national level, within the framework of a pilot phase of Capacity 21, in close association with the emerging State Environmental Policy and through extended cooperation with the Global Environmental Facility (GEF). Particular emphasis will be laid on capacity-building in the following areas:

(a) Financial mechanisms and economic instruments for sustainable development;

(b) Trade and environment;

(c) Energy efficiency;

(d) Technology cooperation and transfer;

(e) Environment-related development activities;

(f) Compliance with major international environmental treaties.

Two separate projects in the area of environment protection were submitted and approved in 1993 and 1994.

30. In addition to these three thematic priorities, UNDP will also finance umbrella activities, where the emphasis will be on flexible support activities to priority sectors. This activity is already operational, particularly under the Transfer of Knowledge through Expatriate Nationals (TOKTEN) project. A possible combination of this project with consultancies undertaken through modalities such as the United Nations International Short-Term Advisory Resources (UNISTAR), the United Nations Volunteers (UNV) and TCDC is under consideration and will be implemented through the use of unprogrammed resources.

31. The following criteria should be applied within each sector in examining project proposals for UNDP funding:

(a) Impact on human development;

(b) Impact on national capacity-building;

(c) Consistency with the country programme priority themes;

(d) Potential for a catalytic role in drawing additional financing from multilateral or bilateral partners;

(e) Carefully reasoned project design, with logical progression from objectives through activities to cost-efficient inputs;

(f) Correct placement of the project within the Czech national institutional framework and clear support by the host institutions and related authorities;

(g) Synergy between country and intercountry activities.

C. Assistance outside the main country programme areas

32. The unprogrammed reserve of $101,500 (6 per cent) will be used to set up mechanisms for programme development and resource mobilization and to provide the necessary flexibility to support new initiatives during the course of the programme.

D. Implementation and management arrangements

33. The first country programme for the Czech Republic reaffirms national commitment by emphasizing the programme approach and reaffirms national ownership of the programme by laying stress on national execution.

34. Programme approach. The Government welcomes the principle that UNDP assistance should concentrate on a very few national objectives of major importance. Moreover, all project proposals should be integrated into the framework of overall Government strategy and external technical cooperation. This will be achieved through ongoing communication and coordination within the appropriate governmental and national agencies and will necessitate a new approach to the project formulation, appraisal and approval stage. On the part of national institutions, this will involve formulating and managing coherent programmes, coordinating external assistance and mobilizing the necessary funds.

35. National execution. This modality was introduced for three ongoing projects in the Czech Republic and will be encouraged as a testimony to national ownership of the programme, national commitment to its aims and activities, and to the UNDP mandate for strengthening local capacity. Execution arrangements will be examined on a case-by-case basis at the time of project formulation. The Government and UNDP will also examine the question of specific training of the Czech personnel involved in managing nationally executed projects.

36. It is expected that at least 40 per cent of the country programme activities will be nationally executed.

37. Co-financing will be the joint task of the Government and UNDP through: joint formulation missions with donors on mutually agreed upon priority themes; bidding for donor contracts; joint (Government/UNDP) approaches to donors; ongoing discussions with donors; local cost-sharing agreements with national implementing agencies. The Government and UNDP will act on a pragmatic case-by-case basis after mutual consultations. The IPF is to be used as much as possible as seed money to attract cost-sharing from other donors.

38. Cost-effectiveness will also be a crucial factor. Projects will pay close attention to inputs, particularly the use of consultants. National consultants, TOKTEN, UNISTAR and TCDC mechanisms will be used whenever possible, integrated into coherent and well-designed projects.

39. Programme management. Since there is no UNDP field office in the Czech Republic, management of the programme will be ensured by the Department of International Economic Organizations of the Ministry of Foreign Affairs, in close communication with UNDP headquarters through the Permanent Mission of the Czech Republic to the United Nations. Coordination and the importance of exchanging information with other Ministries (especially the focal points coordinating Organisation for Economic Cooperation and Development (OECD) and European Union cooperation) will be emphasized. Attention will be given to frequent communication with United Nations specialized agencies. Monitoring visits will be programmed by UNDP once a year. Evaluations of individual programmes and projects will be carried out jointly.

40. The mid-term review is scheduled for 1995.

Annex

FINANCIAL SUMMARY

I. ESTIMATED RESOURCES (IPF + cost-sharing) TAKEN INTO ACCOUNT FOR PROGRAMMING

		$
Carry-over from fourth cycle IPF	961 000	
Revised fifth cycle IPF	838 600	
Subtotal IPF		1 799 600
Government cost-sharing	-	
Third party cost-sharing	-	
Subtotal cost-sharing	-	
TOTAL		1 799 600

II. ALLOCATION OF RESOURCES (IPF + cost-sharing) BY AREA OF CONCENTRATION

	Area of concentration	Dollars IPF	Dollars Cost-sharing	Percentage of total resources
1.	Restructuring the economy, investment promotion and support for private sector	325 100	-	18
2.	Management development, training and human resources development (including Telecom)	910 000	-	50
3.	Environmental management	393 000	-	22
4.	Umbrella activities	70 000	-	4
5.	Unprogrammed reserve	101 500	-	6
	TOTAL	1 799 600	-	100

III. COMPLEMENTARY ASSISTANCE FROM OTHER SOURCES

No complementary assistance is envisaged from other sources.